

Report on the

**Analysis of the General Fund
State of Alabama
Montgomery, Alabama**

October 1, 1994 through September 30, 2004

Filed: February 18, 2005



**Department of
Examiners of Public Accounts**

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Ronald L. Jones, Chief Examiner

Table of Contents

Page

Report to the Chief Examiner

Exhibit #1	General Fund – Schedule of Cash Balances, Receipts and Disbursements	1
Exhibit #2	Details of Cash Receipts	5
Exhibit #3	Details of Cash Disbursements	9



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Honorable Ronald L. Jones
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Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-14, I submit this report on the Analysis of the General Fund, State of Alabama, for the period October 1, 1994 through September 30, 2004.

SCOPE AND OBJECTIVE

Due to the current budgetary problems of the State of Alabama, citizens, lawmakers and the media have expressed significant interest in the condition of the General Fund. Many questions have arisen concerning the current budgetary problems. Sufficient detailed information is available to answer most of the questions that have arisen; however, this information has not been summarized and presented in a manner that makes it easy to understand. The purpose of this report is to provide financial information for the General Fund, including changes in revenues and expenditures, and other factors that have affected the financial condition of the General Fund. The information presented in this report is presented on the basis of cash receipts and disbursements and represents cash balances and cash transactions that have occurred during the past ten years. This report summarizes the General Fund by showing the cash balance available at the beginning of each fiscal year, how much money was actually collected and deposited and from where, how much money was spent and for what, and the cash balance at the end of each fiscal year. Also provided is some additional analysis and information concerning changes that have occurred in certain revenues and expenditures that have had a significant effect on the condition of the General Fund.

OVERALL RESULTS OF ANALYSIS

At the close of business on September 30, 2004, the cash balance in the General Fund was \$187,412,967, the largest fiscal year-end balance ever occurring. There were encumbrances and obligations of \$21,964,250, resulting in an unobligated balance of \$165,448,717.

Several non-routine revenues totaling \$118,904,261 were deposited during the 2003-2004 fiscal year, including \$75,612,441 in federal Jobs and Growth Tax Relief Reconciliation Act of 2003 funds, \$19,672,000 in proceeds from an “interest rate swap” contract, and a distribution of \$23,619,820 unrealized capital gains from the Alabama Trust Fund. Even so, total receipts to the General Fund were \$1,298,487,000, a decrease of more than \$5 million from the amount received during the previous fiscal year.

Cash disbursements from the General Fund totaled \$1,248,546,000 for the 2003-2004 fiscal year, which is the highest amount disbursed from the General Fund in the history of the State. The 2003-2004 fiscal year General Fund disbursements were \$17,285,000 more than the 2002-2003 fiscal year and \$96,648,000 more than the 2001-2002 fiscal year.

The budgetary problems currently being experienced in the General Fund are the result of various significant revenue sources decreasing both abruptly and over time, and various types of expenditures increasing at a rapid rate, even in the face of severe budgetary cuts.

Several revenue sources to the General Fund have decreased significantly, including income from the Alabama Trust Fund, investment income, and several taxes. These decreases appear to be a trend and were large enough to offset increases in other revenues and the non-routine receipts.

Income transferred from the Alabama Trust Fund to the General Fund has decreased significantly during the past ten years due to the effects of several constitutional amendments resulting in diversions of Alabama Trust Fund principal and income for other purposes.

Investment income has decreased due to both economic and regulatory conditions.

The franchise tax litigation continued to have a significant effect on the amount of corporation taxes distributed to the General Fund.

Several types of disbursements have increased significantly, including expenditures for professional services, and grants and benefits.

Disbursements for professional services from the General Fund increased from \$45,272,000 in 2002-2003 to \$78,998,000 in 2003-2004.

Disbursements for grants and benefits, which include matching funds for the Medicaid program, increased by \$11,980,000.

Transportation equipment purchases increased from \$523,000 in 2002-2003 to \$2,017,000 in the 2003-2004 fiscal year.

Much discussion and media attention has been directed toward seemingly ever-increasing employee salaries and benefits costs, although salaries paid from the General Fund decreased by \$19,503,000 primarily due to layoffs and transfers caused by budget cuts. Employee benefits paid from the General Fund, which include health insurance costs, increased only \$486,000 from the previous fiscal year.

Background Information

The General Fund is established as the State's primary operating fund. Many of the general operations of the three branches of government are paid for from the General Fund. It accounts for all revenues and expenditures of the State except for those required to be accounted for in another fund. The General Fund receives a wide variety of taxes, fees, and investment income. The State Legislature provides General Fund money for governmental activities through Appropriation Acts, which set forth budgets by state agency and program.

The General Fund of the State of Alabama is accounted for in the State's accounting system using several components; when combined they comprise the General Fund in its entirety. The separation of the General Fund into these components allows completely separate accounting for several large agencies and separate accounting for certain unique or one-time transactions. The components used in the accounting system for the General Fund are assigned a series of General Fund numbers as shown below:

- 0100 – This fund number represents the main part of the General Fund. More than 50 state agencies operate at least partially from this part of the General Fund.
- 0101 – This fund number is used to account for appropriations and expenditures from the General Fund for the Department of Corrections.
- 0102 – This fund number is used to account for appropriations and expenditures from the General Fund for the Administrative Office of Courts.
- 0103 – This fund number is used to account for appropriations and expenditures from the General Fund for the Department of Public Health.
- 0104 – This fund number is used to account for appropriations and expenditures from the General Fund for the Department of Public Safety.
- 0106 – This fund number is used to account for appropriations and expenditures from the General Fund for the Alabama Medicaid Agency.
- 0107 – This fund number is used to account for money held in escrow for pending settlement of certain oil and gas litigation.

- 0108 – This fund number is used to account for the proceeds from the sale of land owned by the Department of Corrections.
- 0109 – This fund number is used to account for payments received from the Federal government under the Jobs and Growth Tax Relief Reconciliation Act of 2003.

During the 1999-2000 fiscal year, the Department of Finance opened another fund number in the accounting system and named it the “GF Rainy Day Fund” (Fund 1100). \$2,500,000 was transferred from the General Fund to this fund during the 1999-2000 fiscal year. An additional \$5,000,000 was transferred during the 2000-2001 fiscal year. Transfers totaling \$5,298,988 were made during the 2001-2002 fiscal year. At September 30, 2002, the balance in the “GF Rainy Day Fund” 1100 was \$12,798,988. During the 2002-2003 fiscal year, this balance was transferred back to the General Fund, and at September 30, 2003 Fund 1100 had a zero balance. Fund 1100 is not included on Exhibit 1 and the ending cash balances of \$2,500,000, \$7,500,000, and \$12,798,988 at September 30, 2000, September 30, 2001, and September 30, 2002, respectively, should be considered additional cash balances of the General Fund. The transfer of the cash back into the General Fund is included on Exhibits 1 and 2 in the cash receipts for the 2002-2003 fiscal year.

The state agencies and departments that have at least part of their expenses paid directly from the main part of the General Fund (0100) include the following:

- Legislature
- Legislative Fiscal Office
- Legislative Reference Service
- Department of Examiners of Public Accounts
- Supreme Court
- Courts of Civil and Criminal Appeals
- State Law Library
- Judicial Inquiry Commission
- Alabama Law Institute
- District Attorneys and Office of Prosecution Services
- Governor’s Office
- Governor’s Office on Disability
- Governor’s Office on National and Community Service
- Lieutenant Governor
- Attorney General
- State Treasurer
- State Auditor
- Secretary of State
- Ethics Commission
- Department of Finance and Finance Director’s Office
- Board of Adjustment

- Department of Economic and Community Affairs
- Department of Children's Affairs
- Department of Agriculture and Industries
- Alabama Development Office
- Bureau of Tourism and Travel
- Board of Pardons and Paroles
- Department of Forensic Sciences
- Department of Senior Services
- Department of Industrial Relations
- Military Department
- Department of Revenue
- Alcoholic Beverage Control Board
- Department of Archives and History
- Building Commission
- Alabama Emergency Management Agency
- Department of Homeland Security
- Oil and Gas Board and Geological Survey
- Department of Labor
- Department of Veterans Affairs
- State Health Planning and Development Agency
- Department of Indian Affairs
- Criminal Justice Information Center
- Agriculture Center Board (Coliseum)
- Sports Hall of Fame
- Farmers Market Authority
- Soil and Water Conservation Committee
- Choctawhatchee-Pea-Yellow Rivers Watershed Management Authority
- Council on the Arts
- Indian Affairs Commission
- Senior Citizens Hall of Fame
- Women's Commission

Other state agencies and funds receive money from the General Fund through appropriated interfund transfers whereby money is transferred from the General Fund to other state funds, usually special revenue funds. For these agencies and funds, the General Fund money is usually commingled with other money received and expended by the agencies, including Federal funds and self-generated fees and revenues mandated by the enabling statutes of each agency. The state agencies and funds that receive appropriated transfers include:

- Department of Human Resources
- Department of Mental Health and Mental Retardation
- Department of Youth Services
- Department of Rehabilitation Services
- Forestry Commission

- Historical Commission – Historic Preservation Fund
- Public Historic Sites Improvement Corporation Debt Service
- Department of Conservation and Natural Resources State Parks Fund
- State Parks Improvement Corporation Debt Service
- Department of Transportation – Public Road and Bridge Fund
- Department of Environmental Management – General Operations
Hazardous Substance Cleanup Fund
- Water Pollution Control Authority Revolving Loan Fund
- Department of Revenue Ad Valorem Equalization Fund
- Department of Finance Telecommunications Revolving Fund
- Department of Finance Capitol Complex Maintenance and Repairs
- State Treasurer – SAFE Program Administrative Fund
- Department of Public Safety – ABI Cost of Evidence Fund
- Department of Public Health – Children’s Health Insurance Program
- Department of Children’s Affairs – Children’s Policy Council Fund
- Secretary of State – Help America Vote Fund
- Alabama Trust Fund Administration
- Surface Mining Commission
- Agricultural and Conservation Development Commission
- Child Abuse and Neglect Prevention Board
- Commission on Uniform State Laws
- Academy of Honor

In addition to the State agencies and funds listed above for which expenses are paid directly from the General Fund, and those listed above that receive appropriated transfers, other state agencies, and some non-state or quasi-state entities receive appropriated General Fund money by direct payments (warrants). This happens because these agencies operate from bank accounts instead of the State Treasury and are therefore not a part of the State’s central accounting system, making interfund transfers impossible. These agencies and funds include the following:

- Cahaba Advisory Committee
- Choccolocco Creek Watershed Conservancy District
- Elk River Development Agency
- Gorgas Memorial Board
- Historic Chattahoochee Commission
- Historic Ironworks Commission
- Women’s Hall of Fame
- St. Stephen’s Historical Commission
- Music Hall of Fame
- Sports Hall of Fame
- Motor Sports Hall of Fame
- Historic Blakeley Authority
- Tennessee-Tombigbee Waterway Development

Special appropriations are also made for miscellaneous government functions. Most of these General Fund expenditures are paid directly from the General Fund and accounted for separately by the Department of Finance. These special appropriations include:

- Departmental Emergency Fund Transfers
- Fair Trial Tax Fund
- Public Employees Defined Contribution Savings Fund
- Buskey Penny Trust Fund
- Arrest of Absconding Felons
- Feeding of Prisoners (state prisoners in local jails)
- Removal of Prisoners
- Court Assessed Costs Not Provided For
- Law Enforcement Legal Defense
- Automatic Appeal Expense (not otherwise provided for)
- Governor's Widow Retirement
- Election Expenses
- Voter Registration
- Reappropriation of Prior Year Reverted Funds
- Employee Suggestion Awards
- Cash Management Improvement Act (interest paid on Federal funds)
- Federal Indirect Cost Allocation Repayments

For further information concerning the amounts appropriated to and expended by the above listed agencies, funds, and entities, our Department performs annually an Analysis of Appropriations which lists all appropriations from the General Fund and all other funds. This report may be found by clicking on "Special Reports" under the heading "Audit Reports" on our Web site at: www.Examiners.State.AL.US.

Revenues and Receipts Deposited to the General Fund

The revenues and receipts deposited directly to the General Fund include a variety of legally mandated taxes, fees, fines, investment income, and some miscellaneous receipts.

Other receipts are transferred in from the state agencies that collect the revenue such as investment income of the Alabama Trust Fund, proceeds from disposition of abandoned property, ABC store profits, reversions, and other revenues and transfers from state agencies that are required to be paid into the General Fund. The revenues and receipts deposited and transferred to the General Fund for the past ten fiscal years are shown on Exhibit 2. Exhibit 2 shows that total receipts deposited into the General Fund have, with the exception of the 2003-2004 fiscal year, gradually increased during the ten-year period shown. Investment income, some taxes, and other revenues have decreased during recent fiscal years.

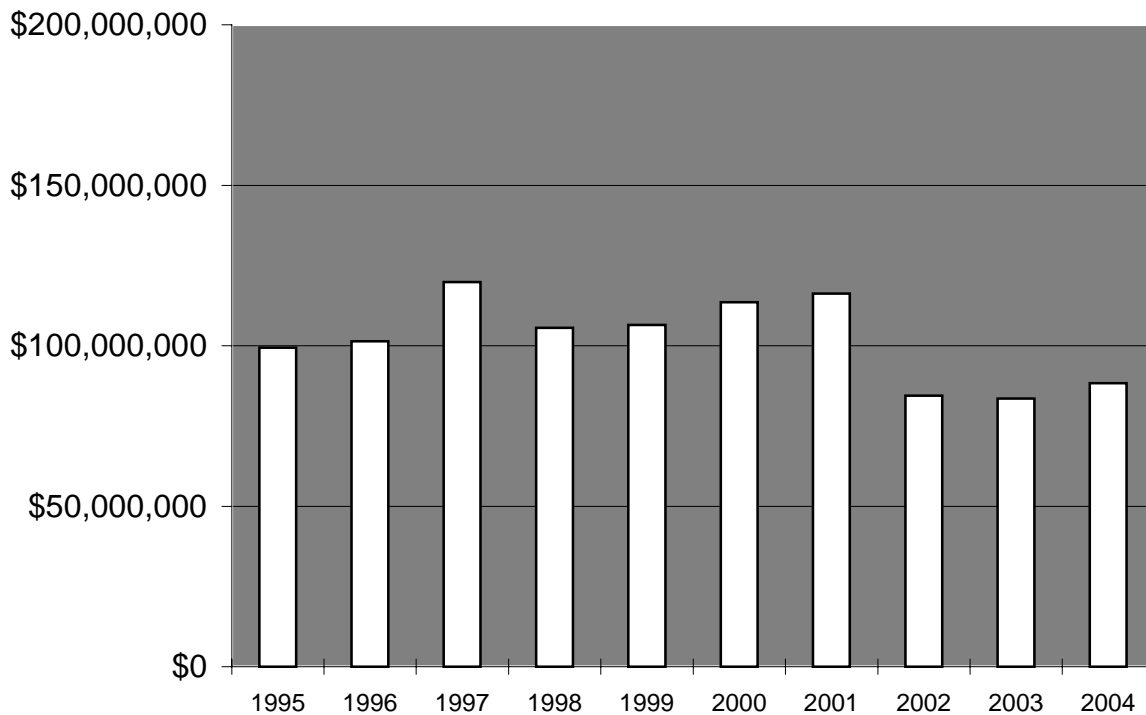
Several significant changes in laws have resulted in decreases in certain revenues deposited to the General Fund. Other revenues have gradually increased during this period; however, in recent years the overall revenue increases have been affected by the decreases in several major revenues and the timing of revenue distributions.

Income transferred from the Alabama Trust Fund to the General Fund has decreased significantly during the past ten years due to the effects of several constitutional amendments. If the amendments had not been passed and ratified, the revenue transferred from the Alabama Trust Fund to the General Fund during the 2003-2004 fiscal year would have been at least \$50,000,000 more than the amount actually transferred. The amendments resulted in diversions of Alabama Trust Fund principal and income for other purposes. Although the amendments were ratified by voters, they conflict with the intent of the original amendment that established the Alabama Trust Fund. As a result of these amendments, payments have been made from the Alabama Trust Fund that depleted the principal of the Fund. Unfortunately, this situation has resulted in decreased transfers to the General Fund, rather than supplying the General Fund with a growth revenue.

Transfers to the General Fund from the Alabama Trust Fund and the former Heritage Trust Fund for the last ten fiscal years are shown below:

Fiscal Year	Amount Received
2003-2004	\$ 88,287,071
2002-2003	\$ 83,574,350
2001-2002	\$ 84,475,511
2000-2001	\$116,202,185
1999-2000	\$113,561,993
1998-1999	\$106,450,326
1997-1998	\$105,546,204
1996-1997	\$119,821,271
1995-1996	\$101,434,557
1994-1995	\$ 99,409,515

TRANSFERS FROM ALABAMA TRUST FUND



The increase in these deposits for the 2003-2004 fiscal year is attributable to a distribution of \$23,619,820 of unrealized capital gains as authorized, but not required, by Amendment No. 666. This distribution resulted in further depletion of the principal of the Alabama Trust Fund.

To further complicate problems for the General Fund in the future, Amendment No. 666 also authorized the issuance of general obligation bonds related to the activities of the County and Municipal Capital Improvement Trust Funds and the Alabama Capital Improvement Trust Fund to be paid from the future oil and gas royalties and trust income received by those funds. As stated previously, Alabama's oil and gas reserves are a depletable resource. A report from the State of Alabama Oil and Gas Board and Geological Survey dated in February 2004 indicates that the oil and gas reserves will be depleted by 2020 and that the royalties paid to the State will be greatly reduced for several years preceding the final depletion of the reserves. Bonds issued for terms exceeding ten years for which the oil and gas royalties and trust income is not sufficient to pay the debt service will have to be paid from the General Fund because they are general obligation bonds.

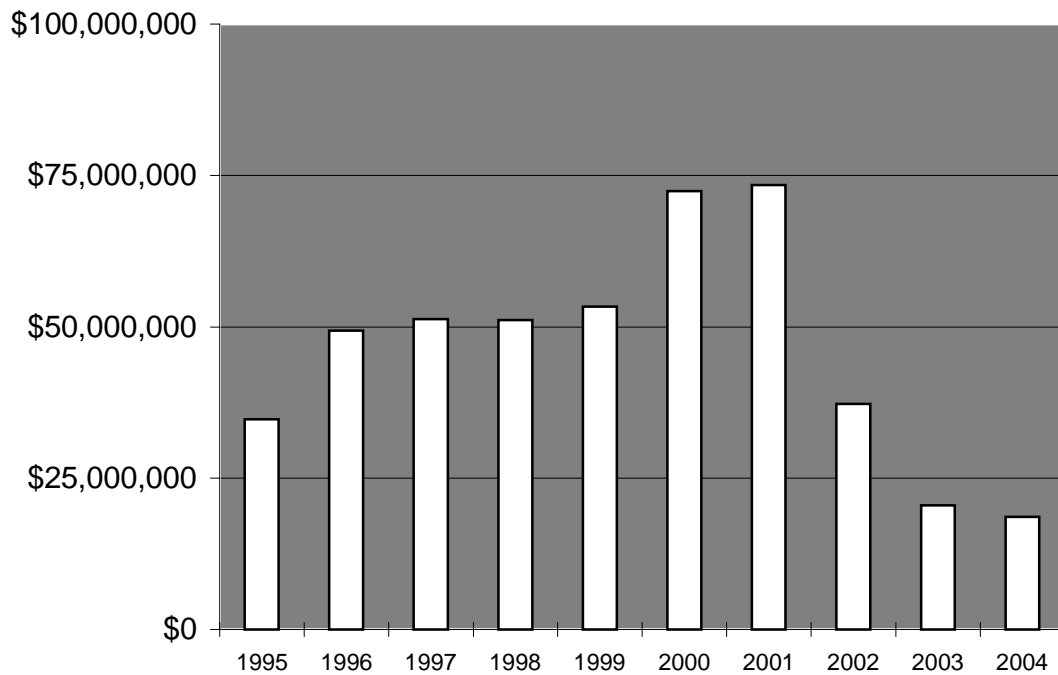
The investment income from the Alabama Trust Fund is not the only investment income received by the General Fund. All money on deposit in the State Treasury is invested and most of that investment income is deposited to the General Fund. The amount of investment income earned is dependent on the amount of total cash in the State Treasury invested during the year and economic conditions. The amount of cash available for investment in the State Treasury has decreased since 1995 due to the passage of the federal Cash Management Improvement Act limiting the amount of time that federal funds may be held. Because of the requirements of the Act and the cash requirements of the Constitution, the General Fund actually has to pay interest to the federal government for the time that federal funds are in the State Treasury. An appropriation to pay this interest is made annually from the General Fund and for the 2003-2004 fiscal year totaled \$500,000, of which \$86,044 was paid to the federal government.

Economic conditions have resulted in greatly reduced investment income during the past several years, particularly since the events of September 11, 2001. Also, unlike the Retirement Systems of Alabama, there are legal limitations on the types of investments that can be made by the State Treasurer, which inherently result in significantly lower overall investment yields.

The deposits to the General Fund from funds invested by the State Treasurer are as follows:

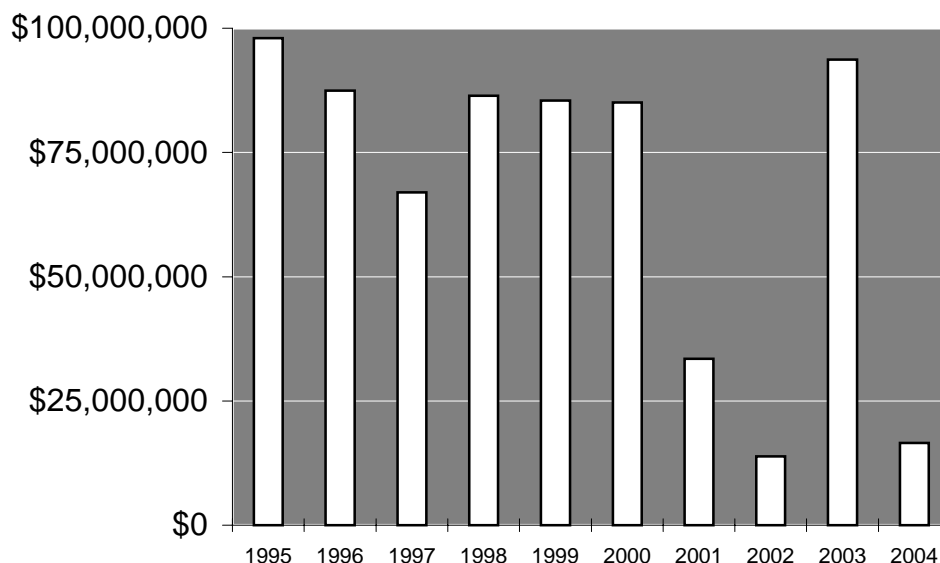
Fiscal Year	Amount Received
2003-2004	\$18,598,031
2002-2003	\$20,502,752
2001-2002	\$37,267,679
2000-2001	\$72,431,402
1999-2000	\$72,432,109
1998-1999	\$53,357,427
1997-1998	\$51,114,409
1996-1997	\$51,308,683
1995-1996	\$49,396,343
1994-1995	\$34,752,062

STATE TREASURY INVESTMENT INCOME



Of the 24 major sources of tax revenue to the General Fund, 8 decreased during the 2003-2004 fiscal year when compared to the previous fiscal year. The largest decrease occurred in corporation taxes. The amount of corporation taxes deposited to the General Fund during the 2003-2004 fiscal year was \$16,533,611, which was a decrease of \$77,182,246 from the prior fiscal year. Corporation taxes have fluctuated substantially during the past several years due to litigation, as shown in the following chart.

CORPORATION TAXES DISTRIBUTED TO GENERAL FUND



The franchise tax litigation currently consists of approximately 600 franchise tax refund cases pending in the Circuit Court and the Administrative Law Division (of the Department of Revenue), and for convenient reference are collectively identified by their seminal class action name, Gladwin Corp. v. Lyons, Cir.Ct., Montgomery County, CV-96-1065-GR. In March 1999, the U. S. Supreme Court ruled that Alabama's franchise tax system unconstitutionally discriminated against interstate commerce (South Central Bell Telephone Co. v. Alabama, 119 S.Ct. 1180). After remand of that case to the Circuit Court of Montgomery County, the South Central Bell plaintiffs settled franchise tax refund claims totaling over \$141 million for \$40 million. Gladwin then became the primary trial court case. It was a class action on behalf of a putative class of all non-Alabama, foreign corporations that had been required to pay corporate franchise taxes in Alabama. It challenged the constitutionality of the pre-2000 franchise tax on the same grounds as the South Central Bell case. Gladwin was certified by the trial court as a class action, but that class certification was vacated on appeal by the Alabama Supreme Court on May 17, 2002, and the Supreme Court of the United States denied certiorari. The net result of the South Central Bell holding and the class decertification outcome of Gladwin was to require the several hundred individual foreign corporation franchise tax refund claims to be prosecuted as individual cases in the Circuit Court or the Administrative Law Division of the Department of Revenue. The potential loss exposure risk in aggregate class refund claims for the State prior to the Supreme Court of the United States upholding class decertification exceeded \$800 million. The potential loss afterward for the several hundred individual corporate refund claim cases arguably surviving class decertification was about \$250 million. However, the State has been aggressively defending the individual cases and negotiating settlements on a case-by-case basis. For the period from October 21, 2002 through March 2004, approximately 200 corporate taxpayers settled \$128.60 million in

franchise tax refund claims for \$17.49 million. The remaining franchise tax refund cases, with the addition of accruing interest, nevertheless continue to represent a potential liability and decreases in transfers of current taxes to the General Fund easily exceeding \$150 million.

The Department of Revenue deposits corporation taxes in an escrow fund (Fund #0696) set up as a result of the franchise tax litigation. The Department of Revenue processes corporation tax refunds and distributions to the General Fund and local governments from Fund #0696. The distributions to local governments are routinely paid in January and July. Contrary to sound accounting practices and appropriate internal control procedures, the Department of Finance has complete control over the timing of transfers of corporation taxes from Fund #0696 into the General Fund.

The Franchise Tax Litigation Escrow Fund #0696 contained balances during the previous 4 fiscal years as follows:

Date	Balance in Fund 0696
September 30, 2004	\$ 38,210,199
August 31, 2004	\$ 37,019,190
July 31, 2004	\$ 40,388,907
June 30, 2004	\$ 53,940,182
May 31, 2004	\$ 63,195,288
April 30, 2004	\$ 58,506,500
March 31, 2004	\$ 38,401,043
February 29, 2004	\$ 7,073,975
January 31, 2004	\$ 5,620,278
December 31, 2003	\$ 32,042,004
November 30, 2003	\$ 40,858,128
October 31, 2003	\$ 40,331,288
September 30, 2003	\$ 38,220,704
August 31, 2003	\$ 33,668,647
July 31, 2003	\$ 32,225,048
June 30, 2003	\$ 39,941,994
May 31, 2003	\$ 49,027,861
April 30, 2003	\$ 52,563,531
March 31, 2003	\$ 47,492,935
February 28, 2003	\$ 14,105,827
January 31, 2003	\$ 12,323,910
December 31, 2002	\$ 37,953,044
November 30, 2002	\$ 53,524,261
October 31, 2002	\$ 72,276,912
September 30, 2002	\$ 99,064,620
August 30, 2002	\$ 68,570,534
July 31, 2002	\$ 67,936,833
June 30, 2002	\$ 68,320,929

Date	Balance in Fund 0696
May 31, 2002	\$ 67,252,744
April 30, 2002	\$ 63,379,832
March 31, 2002	\$ 73,540,731
February 28, 2002	\$ 89,604,841
January 31, 2002	\$ 98,115,200
December 31, 2001	\$ 89,349,591
November 30, 2001	\$ 96,450,962
October 31, 2001	\$103,130,699
September 30, 2001	\$108,567,796
August 31, 2001	\$113,871,327
July 31, 2001	\$112,907,767
June 30, 2001	\$133,838,531
May 31, 2001	\$134,027,632
April 30, 2001	\$155,511,535
March 31, 2001	\$100,211,134
February 28, 2001	\$ 65,554,537
January 31, 2001	\$ 59,151,055
December 31, 2000	\$ 67,036,760
November 30, 2000	\$ 79,916,771
October 31, 2000	\$ 84,921,817
September 30, 2000	\$ 84,598,246

There were some permanent decreases in other taxes. The inheritance tax decreased because of a 25% credit given to taxpayers in 2003. The inheritance tax is now discontinued and will not be received in the future. After 1996, the taxes received from the Tennessee Valley Authority were diverted for other purposes and are now being used to pay debt service on bonds issued by the Alabama Incentives Finance Authority.

An unexpected increase in receipts to the General Fund occurred in the Abandoned Property program when it was transferred to the State Treasurer. In addition, the expiration date for warrants was changed from seven years to one year; as a result, each year the total amount of expired and uncashed warrants from the previous year is transferred to the Abandoned Property fund for further disposition. The amount transferred from the Abandoned Property program to the General Fund during the 2003-2004 fiscal year was \$18,000,000; however, this was \$2,000,000 less than the amount transferred the previous fiscal year and the amount of future transfers may vary greatly.

Expenditures and Disbursements Paid from the General Fund

The expenditures and disbursements made from the General Fund are those incurred by the various agencies, funds, government functions, and other entities listed in the first section of this report. Expenditures are classified into 16 major categories in the accounting system used by the State. These categories are listed on Exhibit 3, with the amount expended from the General Fund under each category for the past ten years. Several of the categories are examined here in further detail. The amounts discussed include only those paid directly from the General Fund and do not include any additional amounts paid by those agencies that received appropriated transfers from the General Fund.

The largest increase in expenditures occurred in the area of professional services. Amounts paid from the General Fund for professional services have increased 163% during the ten-year period. Professional services include legal, auditing, actuarial, advertising, architectural, engineering, data processing, investment advisors, medical, scientific, and many other types of services. For the past several years, the Department of Corrections has housed state prisoners with an out-of-state contractor and those costs are shown under professional services. During the 2003-2004 fiscal year more than 90% of the professional services costs were incurred by 8 state agencies. The professional services paid from the General Fund by these agencies during the 2003-2004 fiscal year are shown below. This list does not include additional professional services paid for by agencies that received appropriated transfers from the General Fund.

Name of Agency	2003-2004
Department of Corrections	\$60,385,480
Department of Youth Services	\$ 6,703,677
Special Appropriations paid by	
Department of Finance	\$ 3,732,543
Department of Public Health	\$ 1,477,049
Supreme Court	\$ 927,060
Department of Economic and	
Community Affairs	\$ 907,818
Governor	\$ 638,111
Legislature	\$ 578,370

Another increase occurred in grants and benefits. For the 2003-2004 fiscal year, approximately 82% of the amount paid from the General Fund for grants and benefits consisted of state matching funds required for the federal Medicaid program. During the 2003-2004 fiscal year more than 95% of the grants and benefits costs were paid by 6 agencies, including the Alabama Medicaid Agency. The grants and benefits paid directly from the General Fund by these agencies are shown below. Again, these do not include additional grants and benefits paid for by agencies that received appropriated transfers from the General Fund.

Name of Agency	2003-2004
Alabama Medicaid Agency	\$245,181,959
Department of Public Health	\$ 12,074,805
Department of Youth Services	\$ 10,523,315
Department of Senior Services	\$ 10,122,676
Emergency Management Agency	\$ 4,520,641
Department of Economic and Community Affairs	\$ 4,228,217

Transportation equipment purchases (cars, trucks, vans, buses, etc.) have fluctuated during the ten-year period, but in recent years decreased substantially until the 2003-2004 fiscal year. Transportation equipment purchases increased to \$2,017,000 in the 2003-2004 fiscal year.

Personnel costs (salaries) and employee benefits combined are the largest of the expenditure categories. It is logical that these two categories comprise the largest portion of the costs of government, because the employees of the government are the ones that accomplish delivery of government services to the public. This is truer for the General Fund because of its inherent function of providing for most of the State's general government services. The disbursements shown on Exhibit 3 show that personnel costs have gradually increased an average of 3.8% per year. Employee benefit costs also increased during the ten-year period, attributable mostly to health insurance costs increases occurring since the 1998-1999 fiscal year. However, salaries paid from the General Fund decreased during the 2003-2004 fiscal year by \$19,503,000 primarily due to layoffs and transfers caused by budget cuts. Employee benefits paid from the General Fund, which include health insurance costs, increased only \$486,000 from the previous fiscal year.

For the 2003-2004 fiscal year the amount for travel costs was less than any year for the ten-year period.

The expenditure category "Miscellaneous" has increased during the ten-year period. This expenditure category primarily accounts for appropriated transfers and direct disbursements of General Fund appropriations to other state funds and state agencies as discussed at the beginning of this report. Some general obligation debt service expenditures are also included in the appropriated transfers. This category also includes distributions of General Fund appropriations for the Departmental Emergency Fund and other special funds and other miscellaneous expenditure transactions.

Sworn to and subscribed before me this
the 8th day of February, 2005.

Sandra E. Shirley
Notary Public

Respectfully submitted,

Gail Traylor

Gail Traylor, CPA
Examiner of Public Accounts
Director State Audit Division

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General Fund**Schedule of Cash Balances, Receipts and Disbursements****October 1, 1994 through September 30, 2004****(Amounts Rounded to Nearest Dollar)**

1994-1995	General Fund	Corrections	AOC	Public Health
Beginning Balance	\$ 36,285,597	\$ 3,279,530	\$ 964,996	\$ 385,941
Receipts	874,320,274	3,720	936	300
Disbursements	(405,775,298)	(148,552,596)	(87,869,406)	(29,947,769)
Transfers Within	(454,495,710)	149,807,290	88,354,607	29,709,245
Ending Balance	<u>\$ 50,334,863</u>	<u>\$ 4,537,944</u>	<u>\$ 1,451,133</u>	<u>\$ 147,717</u>
1995-1996				
Beginning Balance	\$ 50,334,863	\$ 4,537,944	\$ 1,451,133	\$ 147,717
Receipts	898,215,925	-	145	377
Disbursements	(399,344,399)	(153,037,810)	(89,644,316)	(35,531,402)
Transfers Within	(491,254,006)	154,536,131	88,376,797	36,856,905
Ending Balance	<u>\$ 57,952,383</u>	<u>\$ 6,036,265</u>	<u>\$ 183,759</u>	<u>\$ 1,473,597</u>
1996-1997				
Beginning Balance	\$ 57,952,383	\$ 6,036,265	\$ 183,759	\$ 1,473,597
Receipts	924,225,670	-	149	-
Disbursements	(413,441,179)	(148,783,789)	(90,345,988)	(36,196,577)
Transfers Within	(517,916,782)	155,272,867	90,586,462	36,885,820
Ending Balance	<u>\$ 50,820,092</u>	<u>\$ 12,525,343</u>	<u>\$ 424,382</u>	<u>\$ 2,162,840</u>
1997-1998				
Beginning Balance	\$ 50,820,092	\$ 12,525,343	\$ 424,382	\$ 2,162,840
Receipts	971,801,587	6,375	-	658
Disbursements	(405,866,973)	(166,594,312)	(93,259,727)	(51,355,891)
Transfers Within	(559,723,179)	162,133,203	93,264,152	51,386,677
Ending Balance	<u>\$ 57,031,527</u>	<u>\$ 8,070,609</u>	<u>\$ 428,807</u>	<u>\$ 2,194,284</u>
1998-1999				
Beginning Balance	\$ 57,031,527	\$ 8,070,609	\$ 428,807	\$ 2,194,284
Receipts	1,015,604,504	(6,374)	-	-
Disbursements	(429,524,824)	(166,445,888)	(97,353,910)	(44,414,179)
Transfers Within	(570,536,008)	164,930,363	97,552,889	43,836,491
Ending Balance	<u>\$ 72,575,199</u>	<u>\$ 6,548,710</u>	<u>\$ 627,786</u>	<u>\$ 1,616,596</u>

Public Safety	Medicaid	Oil and Gas Escrow	Corrections Land Sale	Federal Jobs and Growth	Total
\$ 1,442,556	\$ 4,375,362	\$ -	\$ -	\$ -	\$ 46,733,982
-	-	-	-	-	874,325,230
(45,725,516)	(143,613,741)	-	-	-	(861,484,326)
47,112,762	139,511,806	-	-	-	-
<u>\$ 2,829,802</u>	<u>\$ 273,427</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,574,886</u>
\$ 2,829,802	\$ 273,427	\$ -	\$ -	\$ -	\$ 59,574,886
-	-	-	-	-	898,216,447
(42,576,621)	(169,497,043)	-	-	-	(889,631,591)
42,189,720	169,294,453	-	-	-	-
<u>\$ 2,442,901</u>	<u>\$ 70,837</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,159,742</u>
\$ 2,442,901	\$ 70,837	\$ -	\$ -	\$ -	\$ 68,159,742
-	-	-	-	-	924,225,819
(54,154,265)	(181,271,397)	-	-	-	(924,193,195)
53,877,180	181,294,453	-	-	-	-
<u>\$ 2,165,816</u>	<u>\$ 93,893</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,192,366</u>
\$ 2,165,816	\$ 93,893	\$ -	\$ -	\$ -	\$ 68,192,366
29,861	-	-	-	-	971,838,481
(56,565,086)	(195,677,102)	-	-	-	(969,319,091)
57,262,045	195,677,102	-	-	-	-
<u>\$ 2,892,636</u>	<u>\$ 93,893</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,711,756</u>
\$ 2,892,636	\$ 93,893	\$ -	\$ -	\$ -	\$ 70,711,756
13,073	-	-	-	-	1,015,611,203
(58,613,612)	(205,672,438)	-	-	-	(1,002,024,851)
58,366,553	205,849,712	-	-	-	-
<u>\$ 2,658,650</u>	<u>\$ 271,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84,298,108</u>

General Fund**Schedule of Cash Balances, Receipts and Disbursements****October 1, 1994 through September 30, 2004****(Amounts Rounded to Nearest Dollar)**

1999-2000	General Fund	Corrections	AOC	Public Health
Beginning Balance	\$ 72,575,199	\$ 6,548,710	\$ 627,786	\$ 1,616,596
Receipts	1,116,791,515	-	-	-
Disbursements	(456,838,486)	(172,301,143)	(99,998,976)	(44,313,064)
Transfers Within	(623,693,110)	174,090,147	99,715,792	45,445,399
Ending Balance	<u>\$ 108,835,118</u>	<u>\$ 8,337,714</u>	<u>\$ 344,602</u>	<u>\$ 2,748,931</u>
2000-2001				
Beginning Balance	\$ 108,835,118	\$ 8,337,714	\$ 344,602	\$ 2,748,931
Receipts	1,175,792,021	-	4,239	-
Disbursements	(548,069,274)	(186,919,628)	(119,796,101)	(45,535,824)
Transfers Within	(654,357,922)	186,475,783	120,136,900	48,688,841
Ending Balance	<u>\$ 82,199,943</u>	<u>\$ 7,893,869</u>	<u>\$ 689,640</u>	<u>\$ 5,901,948</u>
2001-2002				
Beginning Balance	\$ 82,199,943	\$ 7,893,869	\$ 689,640	\$ 5,901,948
Receipts	1,103,390,717	5,630	11,066	-
Disbursements	(480,535,327)	(199,557,775)	(122,651,940)	(53,384,246)
Transfers Within	(664,787,025)	197,295,892	122,874,731	50,395,572
Ending Balance	<u>\$ 40,268,308</u>	<u>\$ 5,637,616</u>	<u>\$ 923,497</u>	<u>\$ 2,913,274</u>
2002-2003				
Beginning Balance	\$ 40,268,308	\$ 5,637,616	\$ 923,497	\$ 2,913,274
Receipts	1,315,070,654	-	36,582	-
Disbursements	(534,066,120)	(226,250,097)	(128,512,138)	(52,743,639)
Transfers Within	(774,382,657)	231,331,263	128,312,513	54,087,172
Ending Balance	<u>\$ 46,890,185</u>	<u>\$ 10,718,782</u>	<u>\$ 760,454</u>	<u>\$ 4,256,807</u>
2003-2004				
Beginning Balance	\$ 46,890,185	\$ 10,718,782	\$ 760,454	\$ 4,256,807
Receipts	1,298,487,640	-	-	-
Disbursements	(492,910,737)	(270,808,122)	(120,866,041)	(48,579,736)
Transfers Within	(675,070,245)	267,367,757	121,022,449	45,928,044
Ending Balance	<u>\$ 177,396,843</u>	<u>\$ 7,278,417</u>	<u>\$ 916,862</u>	<u>\$ 1,605,115</u>

Public Safety	Medicaid	Oil and Gas Escrow	Corrections Land Sale	Federal Jobs and Growth	Total
\$ 2,658,650	\$ 271,167	\$ -	\$ -	\$ -	\$ 84,298,108
1,360	-	-	-	-	1,116,792,875
(57,399,708)	(244,131,355)	-	-	-	(1,074,982,732)
59,817,765	244,624,007	-	-	-	-
<u>\$ 5,078,067</u>	<u>\$ 763,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,108,251</u>
<hr/>					
\$ 5,078,067	\$ 763,819	\$ -	\$ -	\$ -	\$ 126,108,251
2,449	-	-	-	-	1,175,798,709
(65,912,933)	(235,444,136)	-	-	-	(1,201,677,896)
63,459,183	235,597,215	-	-	-	-
<u>\$ 2,626,766</u>	<u>\$ 916,898</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,229,064</u>
<hr/>					
\$ 2,626,766	\$ 916,898	\$ -	\$ -	\$ -	\$ 100,229,064
5,607	-	13,431,699	-	-	1,116,844,719
(63,176,498)	(232,591,831)	-	-	-	(1,151,897,617)
62,494,655	231,726,175	-	-	-	-
<u>\$ 1,950,530</u>	<u>\$ 51,242</u>	<u>\$ 13,431,699</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,176,166</u>
<hr/>					
\$ 1,950,530	\$ 51,242	\$ 13,431,699	\$ -	\$ -	\$ 65,176,166
-	5,400	(13,431,699)	1,875,001	-	1,303,555,938
(64,435,932)	(221,979,074)	-	(1,274,272)	(2,000,000)	(1,231,261,272)
63,007,625	222,031,795	-	-	75,612,289	-
<u>\$ 522,223</u>	<u>\$ 109,363</u>	<u>\$ -</u>	<u>\$ 600,729</u>	<u>\$ 73,612,289</u>	<u>\$ 137,470,832</u>
<hr/>					
\$ 522,223	\$ 109,363	\$ -	\$ 600,729	\$ 73,612,289	\$ 137,470,832
-	-	-	-	-	1,298,487,640
(54,625,312)	(260,154,829)	-	(600,728)	-	(1,248,545,505)
54,301,239	260,063,045	-	-	(73,612,289)	-
<u>\$ 198,150</u>	<u>\$ 17,579</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 187,412,967</u>

Details of Cash Receipts
October 1, 1994 through September 30, 2004
(Amounts shown in Thousands)

	1995	1996	1997	1998
<u>TRANSFERS IN</u>				
ABC Store Profits	\$ 11,959	\$ 11,933	\$ 13,874	\$ 15,127
Public Service Commission	2,130	2,000	1,922	2,273
Insurance Department	-	-	-	3,028
Abandoned Property	-	-	-	14,240
ETF - Veterans Affairs	-	1,794	1,994	2,734
Securities Commission	1,500	1,500	1,500	1,500
Alabama Trust Fund	99,410	101,435	119,821	105,546
Reversions	2,051	1,497	3,030	1,408
Tobacco Settlement	-	-	-	-
Miscellaneous Transfers	5,453	2,244	4,364	4,373
TOTAL TRANSFERS	122,503	122,403	146,505	150,229
<u>TAXES</u>				
General Sales Tax	28,717	35,919	36,486	40,843
General Use Tax	-	-	254	262
Property Tax Relief	9,703	10,017	10,349	10,642
General Property Tax	44,954	46,800	49,991	53,318
Insurance Premium Tax	118,144	124,452	118,405	142,158
Liquor and Wine Tax	27,704	30,275	31,151	31,519
Tobacco and Cigarette Taxes	24,020	24,445	24,203	24,141
Corporation Taxes	98,032	87,436	66,984	86,408
State Beer Tax	13,857	14,200	14,238	14,589
Public Utilities	11,876	11,855	12,078	12,196
Tennessee Valley Authority	11,545	6,146	-	-
Leasing/Renting Personal Property	26,953	28,309	31,940	34,124
Production Privilege Tax	37,294	47,457	52,275	42,517
Financial Institutions Excise Tax	6,811	6,916	5,136	4,749
Documentary Filing Taxes	40,029	43,271	46,097	51,651
Coal Severance Tax	-	-	-	-
Inheritance Tax	34,705	32,407	44,511	35,594
Lodgings Tax	14,951	16,612	17,082	18,150
Lubricating Oil Tax	721	726	694	724
Pari-mutuel Betting	4,693	4,506	4,272	4,158
Court Cost Taxes	2,075	2,176	2,335	2,363
Cellular Telephone Tax	11,347	14,776	17,448	19,525
Hazardous Waste	7,644	4,664	8,648	1,389
Miscellaneous Taxes	1,903	1,954	2,013	2,256
TOTAL TAXES	\$ 577,678	\$ 595,319	\$ 596,590	\$ 633,276

1999		2000		2001		2002		2003		2004	
\$	18,233	\$	17,379	\$	18,143	\$	20,335	\$	14,819	\$	19,152
	2,723		2,723		3,554		3,915		4,245		4,499
	662		2,482		3,201		2,925		779		558
	5,768		10,429		15,040		8,240		20,000		18,000
	2,734		2,953		2,770		2,772		2,770		2,493
	1,200		1,500		1,500		3,900		2,500		2,500
	106,450		113,562		116,202		84,476		83,574		88,287
	1,654		1,484		1,462		21,115		593		242
	-		20,031		2,500		2,000		2,840		2,515
	2,949		4,494		2,712		7,121		14,542		1,567
	142,373		177,037		167,084		156,799		146,662		139,813
	43,333		46,851		66,677		91,324		96,767		105,703
	346		320		432		513		608		599
	11,151		11,941		12,294		12,738		13,199		13,928
	58,141		66,380		69,248		61,628		76,401		82,504
	154,909		153,993		160,249		152,316		191,835		203,751
	32,245		31,995		35,904		38,427		35,452		36,026
	23,761		23,181		39,008		42,924		44,255		72,683
	85,459		85,053		33,471		13,864		93,716		16,534
	15,015		14,891		14,831		16,481		13,645		15,655
	12,604		12,699		13,077		13,473		13,334		14,265
	-		-		-		-		-		-
	35,973		38,154		60,700		64,429		62,806		60,520
	28,555		49,652		84,195		41,244		70,764		79,411
	5,217		5,274		4,492		4,024		6,637		12,464
	56,222		53,443		55,653		60,053		71,082		70,365
	-		105		(105)		-		-		1
	62,784		66,763		45,690		79,662		31,157		24,744
	19,263		20,464		21,090		22,167		23,417		24,395
	714		711		729		643		776		673
	3,823		3,728		3,528		3,594		3,416		3,228
	3,113		8,366		8,056		7,929		8,178		8,359
	22,716		27,378		34,222		36,618		43,768		48,287
	1,386		(162)		-		-		-		-
	2,404		2,669		2,672		3,660		2,748		2,633
\$	679,134	\$	723,849	\$	766,113	\$	767,711	\$	903,961	\$	896,728

Details of Cash Receipts
October 1, 1994 through September 30, 2004
(Amounts shown in Thousands)

	1995	1996	1997	1998
<u>LICENSES, PERMITS AND FEES</u>				
Conservation License	\$ -	\$ 3	\$ -	\$ -
Drivers Licenses and Fees	25,109	28,586	27,693	28,588
Wholesale Oil Company License	2,388	2,662	2,391	2,775
Motor Vehicle License	33,549	34,276	35,235	36,928
Privilege License	7,747	8,303	6,403	6,795
Court Fees	26,714	25,184	27,399	31,685
Alcoholic Beverage License	2,413	2,475	2,412	2,458
Insurance Corp Licenses and Fees	-	-	-	-
Miscellaneous License, Permits, Fees	3,526	3,047	2,914	2,878
TOTAL LICENSE, PERMITS AND FEES	101,446	104,536	104,447	112,107
<u>FINES AND FORFEITS</u>				
Court Fines and Forfeits	12,335	12,795	15,126	19,615
Miscellaneous Fines and Forfeits	452	471	520	996
TOTAL FINES AND FORFEITS	12,787	13,266	15,646	20,611
<u>OTHER REVENUES AND RECEIPTS</u>				
Investment Income	34,752	49,396	51,309	51,114
Federal Revenue	-	-	-	443
Release of Amount Held for				
Court Settlement	-	-	-	-
Sale of Real Property	-	-	-	-
Debt Issuance Proceeds/Interest Rate Swap	10,885	-	-	-
Miscellaneous	14,274	13,296	9,729	4,058
TOTAL OTHER REVENUES AND RECEIPTS	59,911	62,692	61,038	55,615
TOTAL CASH RECEIPTS	\$ 874,325	\$ 898,216	\$ 924,226	\$ 971,838

1999		2000		2001		2002		2003		2004	
\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
	30,727		35,423		30,516		30,869		31,314		32,671
	2,270		1,534		2,723		3,417		2,636		3,176
	37,532		37,310		37,255		37,580		37,659		38,868
	7,005		7,263		7,685		8,369		8,375		8,689
	32,799		35,590		34,505		33,532		33,298		37,082
	2,436		2,480		2,152		2,495		2,433		2,419
	588		387		554		676		614		587
	3,003		3,125		3,258		4,330		4,233		4,419
	116,360		123,112		118,648		121,268		120,562		127,911
	19,710		18,590		17,906		17,167		17,279		18,340
	652		560		1,772		1,030		15,178		845
	20,362		19,150		19,678		18,197		32,457		19,185
	53,357		72,432		72,431		37,268		20,503		18,598
	1,015		15		30		-		75,612		75,612
	-		-		-		13,432		-		-
	-		-		-		-		1,875		-
	-		-		-		-		-		19,672
	3,010		1,198		31,815		2,170		1,924		968
	57,382		73,645		104,276		52,870		99,914		114,850
\$	1,015,611	\$	1,116,793	\$	1,175,799	\$	1,116,845	\$	1,303,556	\$	1,298,487

Details of Cash Disbursements
October 1, 1994 through September 30, 2004
(Amounts shown in Thousands)

Type of Expenditure	1995	1996	1997	1998
Personnel Costs	\$ 307,308	\$ 297,134	\$ 308,177	\$ 332,362
Employee Benefits	78,030	72,994	75,871	76,471
Travel In State	1,615	1,784	2,716	3,056
Travel Out of State	702	658	804	955
Repairs and Maintenance	3,606	4,159	4,666	5,024
Rentals and Leases	11,202	10,800	10,349	10,501
Utilities and Communication	13,127	14,971	15,455	15,477
Professional Services	33,368	37,582	30,042	41,904
Supplies, Material and Operating Expenses	29,917	30,656	33,928	35,484
Transportation Equipment Operations	3,582	3,451	4,184	3,950
Grants and Benefits	167,765	206,564	233,005	249,514
Capital Outlay	753	2,048	3,255	3,446
Transportation Equipment Purchases	486	1,137	1,418	2,930
Other Equipment Purchases	3,351	3,411	3,569	6,332
Debt Service	63,129	65,834	33,034	29,124
Miscellaneous	143,543	136,449	163,720	152,789
TOTAL	\$ 861,484	\$ 889,632	\$ 924,193	\$ 969,319

	1999		2000		2001		2002		2003		2004
\$	351,559	\$	351,524	\$	392,847	\$	406,011	\$	432,533	\$	413,030
	73,748		82,792		96,074		101,492		112,495		112,981
	3,076		2,783		3,013		2,222		2,025		1,344
	779		877		866		826		613		558
	4,253		3,741		3,671		3,345		3,122		2,954
	12,205		15,975		14,719		14,027		12,678		12,201
	14,980		16,204		19,665		17,931		18,403		18,235
	37,580		31,182		32,193		39,895		45,272		78,998
	37,204		38,283		40,101		40,974		42,292		40,617
	3,389		4,967		4,859		3,619		2,796		2,785
	258,208		299,303		298,522		295,812		287,271		299,251
	1,173		1,021		1,203		1,941		724		757
	468		675		843		312		523		2,017
	4,600		2,686		3,818		2,755		2,775		2,443
	25,819		7,095		24,787		20,549		20,069		8,572
	172,984		215,875		264,497		200,187		247,670		251,803
\$	1,002,025	\$	1,074,983	\$	1,201,678	\$	1,151,898	\$	1,231,261	\$	1,248,546